

Committee on Financial Services  
Subcommittee on Housing and Community Opportunity  
April 10, 2002

Thank you Madame Chairwoman and Members of the Subcommittee for the opportunity to testify today on the important work being done by Empowerment Zones. EZs across the nation are similar in the positive economic impact they have on communities, but they differ greatly depending on whether they were designated in the first round or the second. Empowerment Zones in both rounds receive various tax incentives, but only Round I Empowerment Zones receive mandatory appropriations in the form of cash grants. On the other hand, the twenty Round II Empowerment Zones are forced to depend on the vagaries of annual discretionary appropriations for their funding. The Round II Empowerment Zone in Ironton, Ohio and Huntington, West Virginia, is one of only two EZs that straddles a stateline, and I am pleased to voice my support for this critical economic development initiative. In addition, I am honored to welcome Cathy Burns, administrator of the Ironton/Huntington EZ, who will testify before you later today.

One of the most exciting projects on the Ironton side of the Ohio River is the development of an industrial park called The Point. The former home of an ethanol plant, The Point is a designated Superfund Site that recently completed remediation and currently awaits the start of Phase I construction. Once construction begins, Ironton hopes to see an influx of approximately one thousand jobs, which is significant growth for a city of 11,000 people. Projects like The Point are essential to impoverished regions like Appalachia. Industrial parks mean more jobs, and more jobs mean a stronger economy, and a stronger economy is what will allow cities like Ironton to compete with its more developed neighbors. The Point is just one of many developments in the Huntington/Ironton Empowerment Zone, though, and the availability of federal grant money is fundamental to each of those.

As I'm sure Cathy Burns will tell you better than I can, tax incentives alone simply cannot get the job done. Although tax incentives are an important component of each Empowerment Zone's mission, the projects that many of these communities pursue would be impossible without the ability to offer cash grants. When the Round II communities applied for EZ status several years ago, their applications were judged on the strength of their economic impact over a ten-year period. The goals that they hope to accomplish by 2009 are predicated on the delivery of the funding they were promised. For this reason, I find it very troubling that the President, in his budget for Fiscal Year 2003, has not provided any money for Round II EZs. If our goal is to revitalize distressed communities, we must recognize that it cannot happen without an infusion of cold, hard cash.

I recently received *this letter* from the Director of the Office of Management and Budget, Mitch Daniels. In his letter, Mr. Daniels writes that "tax benefits are the driving force" behind the EZ program and that most grant money for Round II EZs has not been spent. I have met with many leaders in the Huntington/Ironton area, and I can say that tax benefits are *not* the driving force behind the initiative; the driving force is undeniably the cash grants. In the most technical sense, Mr. Daniels may be correct in saying that all of the money has not been quote unquote "spent," but it has been obligated, allocated, budgeted, or otherwise committed to secure private

investment in the community. In fact, as Cathy Burns will tell you later, the Empowerment Zone in my district has taken the \$18 million in federal grants that it has received and used it to leverage more than \$120 million in private funds. It would be hard, if not impossible, to find another federal program whose return on investment is so great. If an Empowerment Zone can be so successful after just three years, imagine if it were allowed to develop unfettered for the full ten.

I'm pleased to say that I'm not alone in this opinion. The conferees to the Fiscal Year 2002 VA/HUD Appropriations bill reported that they believed that the EZ program "should be funded as a mandatory program." Similarly, the House Budget Committee, in its report to the Fiscal Year 2003 Budget Resolution, states that it "strongly supports the continued funding of . . . Empowerment Zone . . . initiatives . . . at least at the level pledged by the Round II designation of 1999." The Budget report goes on to say that "[i]n competing for designation, [Round II] communities were selected for their thoughtful use of Federal funds over a full ten-year cycle, not on how quickly they could withdraw funds from the Treasury."

The Administration, in its budget proposal for Fiscal Year 2002, recommended that \$185 million be appropriated for Empowerment Zones in the current Fiscal Year, and foresaw a request for \$150 million for Fiscal Year 2003. I was puzzled to read that the President had zeroed out the initiative in his request for Fiscal Year 2003. My strong hope is that we in Congress will push for mandatory funding for Round II Empowerment Zones, but that we not settle for less than the continued funding of a commitment that we made to these communities. Cutting short an initiative that's already seen so much success, and whose potential is even greater, would be a tragedy for the many communities that prosper under the program.